

AR23

Lornex

Annual
Report
1985



The Corporation

The Corporation produces copper and molybdenum in concentrates and silver as a by-product from its open pit mine and mill located in the Highland Valley area of British Columbia. It has a 39% joint venture interest in the Bullmoose metallurgical coal mine in northeastern British Columbia. Exploration is conducted primarily in western Canada.

The Annual General Meeting

10:30 a.m., Thursday, April 17,
1986, in the Shuswap Room,
The Four Seasons Hotel,
791 West Georgia Street,
Vancouver, B.C.

*Cover:
Under an unusually red sky, an
electric shovel takes a giant-
sized bite of ore in the Lornex
open pit.*

Directors' Report to the Shareholders



George R. Albino
Chairman and
Chief Executive Officer

Earnings and Financial Position

Net earnings for the year were \$24.1 million (\$2.92 per common share) compared to a net loss of \$3.3 million (\$0.39 per common share) in 1984.

Net revenue from mine production was \$243.7 million in 1985 compared to \$195.7 million in the previous year. The increase is mainly attributable to greater production of copper and coal, a stronger United States dollar and, to a lesser extent, slightly higher copper prices. The improvement in earnings over last year's net loss is due to greater net revenue from production, lower copper and molybdenum production costs and substantially lower net interest costs.

The Canadian dollar gross revenue price realized per payable pound of copper averaged \$0.89 in 1985 compared to \$0.79 in 1984 and molybdenum averaged \$4.31 per pound compared to \$4.40 in the previous year. Silver averaged \$7.99 per ounce in 1985 and \$9.35 in 1984. Comparable 1983 average prices were copper \$0.90, molybdenum \$4.18 and silver \$14.10.

Net cash balances increased to \$40.0 million from \$6.7 million. Capital expenditures in 1985 were \$9.9 million compared to \$3.3 million last year. During the year the Corporation repaid \$26.4 million of the Bullmoose bank loans; the total Bullmoose loans outstanding at December 31, 1985 were \$79.9 million, including \$59.1 million borrowed under the limited recourse loan agreement.

Lornex Mine

Comparative operating data for the Lornex copper-molybdenum mine are as follows:

	1985	1984
Tons of ore milled (000's)	32,200	31,044
Average tons milled per operating day	88,220	84,821
Average mill head grade (%)		
— Copper	0.386	0.356
— Molybdenum	0.016	0.017
Average mill recovery (%)		
— Copper	87.6	87.3
— Molybdenum	73.2	70.1
Payable metal in concentrate produced (000's)		
— Copper (pounds)	210,583	186,210
— Molybdenum (pounds)	7,593	7,448
— Silver (ounces)	776	726
Payable metal in concentrate delivered (000's)		
— Copper (pounds)	225,396	165,399
— Molybdenum (pounds)	6,949	6,796

The total tonnage of ore milled during 1985 was a record high of 32.2 million tons, an increase of 3.7% over the previous year. In the month of June a record average of 92,520 tons of ore per day were milled.

Production of copper in concentrate in 1985 was at a record all time high and 13% greater than in 1984 due primarily to a higher mill head grade and greater mill throughput. Molybdenum production of 7.6 million pounds for the year was slightly better than 1984 as a result of higher mill recovery and the greater volume of ore milled.

The continuing effects of stringent cost control measures and the implementation of new technologies and process improvements have yielded improved efficiencies and productivity resulting in unit production costs about 5% less than in 1984.



TABLE 1: DATA FOR THE YEAR 2000									
DATE	TIME	TEMP	PRESS	FLOW	LEVEL	STATUS	ALARM	REMARKS	OPERATOR
2000-01-01	08:00	120.5	15.2	10.1	75.3	OK	0	Normal operation	J. Doe
2000-01-01	09:00	121.0	15.5	10.2	75.5	OK	0	Normal operation	J. Doe
2000-01-01	10:00	121.5	15.8	10.3	75.8	OK	0	Normal operation	J. Doe
2000-01-01	11:00	122.0	16.0	10.4	76.0	OK	0	Normal operation	J. Doe
2000-01-01	12:00	122.5	16.2	10.5	76.2	OK	0	Normal operation	J. Doe
2000-01-01	13:00	123.0	16.5	10.6	76.5	OK	0	Normal operation	J. Doe
2000-01-01	14:00	123.5	16.8	10.7	76.8	OK	0	Normal operation	J. Doe
2000-01-01	15:00	124.0	17.0	10.8	77.0	OK	0	Normal operation	J. Doe
2000-01-01	16:00	124.5	17.2	10.9	77.2	OK	0	Normal operation	J. Doe
2000-01-01	17:00	125.0	17.5	11.0	77.5	OK	0	Normal operation	J. Doe
2000-01-01	18:00	125.5	17.8	11.1	77.8	OK	0	Normal operation	J. Doe
2000-01-01	19:00	126.0	18.0	11.2	78.0	OK	0	Normal operation	J. Doe
2000-01-01	20:00	126.5	18.2	11.3	78.2	OK	0	Normal operation	J. Doe
2000-01-01	21:00	127.0	18.5	11.4	78.5	OK	0	Normal operation	J. Doe
2000-01-01	22:00	127.5	18.8	11.5	78.8	OK	0	Normal operation	J. Doe
2000-01-01	23:00	128.0	19.0	11.6	79.0	OK	0	Normal operation	J. Doe
2000-01-02	00:00	128.5	19.2	11.7	79.2	OK	0	Normal operation	J. Doe
2000-01-02	01:00	129.0	19.5	11.8	79.5	OK	0	Normal operation	J. Doe
2000-01-02	02:00	129.5	19.8	11.9	79.8	OK	0	Normal operation	J. Doe
2000-01-02	03:00	130.0	20.0	12.0	80.0	OK	0	Normal operation	J. Doe
2000-01-02	04:00	130.5	20.2	12.1	80.2	OK	0	Normal operation	J. Doe
2000-01-02	05:00	131.0	20.5	12.2	80.5	OK	0	Normal operation	J. Doe
2000-01-02	06:00	131.5	20.8	12.3	80.8	OK	0	Normal operation	J. Doe
2000-01-02	07:00	132.0	21.0	12.4	81.0	OK	0	Normal operation	J. Doe
2000-01-02	08:00	132.5	21.2	12.5	81.2	OK	0	Normal operation	J. Doe
2000-01-02	09:00	133.0	21.5	12.6	81.5	OK	0	Normal operation	J. Doe
2000-01-02	10:00	133.5	21.8	12.7	81.8	OK	0	Normal operation	J. Doe
2000-01-02	11:00	134.0	22.0	12.8	82.0	OK	0	Normal operation	J. Doe
2000-01-02	12:00	134.5	22.2	12.9	82.2	OK	0	Normal operation	J. Doe
2000-01-02	13:00	135.0	22.5	13.0	82.5	OK	0	Normal operation	J. Doe
2000-01-02	14:00	135.5	22.8	13.1	82.8	OK	0	Normal operation	J. Doe
2000-01-02	15:00	136.0	23.0	13.2	83.0	OK	0	Normal operation	J. Doe
2000-01-02	16:00	136.5	23.2	13.3	83.2	OK	0	Normal operation	J. Doe
2000-01-02	17:00	137.0	23.5	13.4	83.5	OK	0	Normal operation	J. Doe
2000-01-02	18:00	137.5	23.8	13.5	83.8	OK	0	Normal operation	J. Doe
2000-01-02	19:00	138.0	24.0	13.6	84.0	OK	0	Normal operation	J. Doe
2000-01-02	20:00	138.5	24.2	13.7	84.2	OK	0	Normal operation	J. Doe
2000-01-02	21:00	139.0	24.5	13.8	84.5	OK	0	Normal operation	J. Doe
2000-01-02	22:00	139.5	24.8	13.9	84.8	OK	0	Normal operation	J. Doe
2000-01-02	23:00	140.0	25.0	14.0	85.0	OK	0	Normal operation	J. Doe
2000-01-03	00:00	140.5	25.2	14.1	85.2	OK	0	Normal operation	J. Doe
2000-01-03	01:00	141.0	25.5	14.2	85.5	OK	0	Normal operation	J. Doe
2000-01-03	02:00	141.5	25.8	14.3	85.8	OK	0	Normal operation	J. Doe
2000-01-03	03:00	142.0	26.0	14.4	86.0	OK	0	Normal operation	J. Doe
2000-01-03	04:00	142.5	26.2	14.5	86.2	OK	0	Normal operation	J. Doe
2000-01-03	05:00	143.0	26.5	14.6	86.5	OK	0	Normal operation	J. Doe
2000-01-03	06:00	143.5	26.8	14.7	86.8	OK	0	Normal operation	J. Doe
2000-01-03	07:00	144.0	27.0	14.8	87.0	OK	0	Normal operation	J. Doe
2000-01-03	08:00	144.5	27.2	14.9	87.2	OK	0	Normal operation	J. Doe
2000-01-03	09:00	145.0	27.5	15.0	87.5	OK	0	Normal operation	J. Doe
2000-01-03	10:00	145.5	27.8	15.1	87.8	OK	0	Normal operation	J. Doe
2000-01-03	11:00	146.0	28.0	15.2	88.0	OK	0	Normal operation	J. Doe
2000-01-03	12:00	146.5	28.2	15.3	88.2	OK	0	Normal operation	J. Doe
2000-01-03	13:00	147.0	28.5	15.4	88.5	OK	0	Normal operation	J. Doe
2000-01-03	14:00	147.5	28.8	15.5	88.8	OK	0	Normal operation	J. Doe
2000-01-03	15:00	148.0	29.0	15.6	89.0	OK	0	Normal operation	J. Doe
2000-01-03	16:00	148.5	29.2	15.7	89.2	OK	0	Normal operation	J. Doe
2000-01-03	17:00	149.0	29.5	15.8	89.5	OK	0	Normal operation	J. Doe
2000-01-03	18:00	149.5	29.8	15.9	89.8	OK	0	Normal operation	J. Doe
2000-01-03	19:00	150.0	30.0	16.0	90.0	OK	0	Normal operation	J. Doe
2000-01-03	20:00	150.5	30.2	16.1	90.2	OK	0	Normal operation	J. Doe
2000-01-03	21:00	151.0	30.5	16.2	90.5	OK	0	Normal operation	J. Doe
2000-01-03	22:00	151.5	30.8	16.3	90.8	OK	0	Normal operation	J. Doe
2000-01-03	23:00	152.0	31.0	16.4	91.0	OK	0	Normal operation	J. Doe
2000-01-04	00:00	152.5	31.2	16.5	91.2	OK	0	Normal operation	J. Doe
2000-01-04	01:00	153.0	31.5	16.6	91.5	OK	0	Normal operation	J. Doe
2000-01-04	02:00	153.5	31.8	16.7	91.8	OK	0	Normal operation	J. Doe
2000-01-04	03:00	154.0	32.0	16.8	92.0	OK	0	Normal operation	J. Doe
2000-01-04	04:00	154.5	32.2	16.9	92.2	OK	0	Normal operation	J. Doe
2000-01-04	05:00	155.0	32.5	17.0	92.5	OK	0	Normal operation	J. Doe
2000-01-04	06:00	155.5	32.8	17.1	92.8	OK	0	Normal operation	J. Doe
2000-01-04	07:00	156.0	33.0	17.2	93.0	OK	0	Normal operation	J. Doe
2000-01-04	08:00	156.5	33.2	17.3	93.2	OK	0	Normal operation	J. Doe
2000-01-04	09:00	157.0	33.5	17.4	93.5	OK	0	Normal operation	J. Doe
2000-01-04	10:00	157.5	33.8	17.5	93.8	OK	0	Normal operation	J. Doe
2000-01-04	11:00	158.0	34.0	17.6	94.0	OK	0	Normal operation	J. Doe
2000-01-04	12:00	158.5	34.2	17.7	94.2	OK	0	Normal operation	J. Doe
2000-01-04	13:00	159.0	34.5	17.8	94.5	OK	0	Normal operation	J. Doe
2000-01-04	14:00	159.5	34.8	17.9	94.8	OK	0	Normal operation	J. Doe
2000-01-04	15:00	160.0	35.0	18.0	95.0	OK	0	Normal operation	J. Doe
2000-01-04	16:00	160.5	35.2	18.1	95.2	OK	0	Normal operation	J. Doe
2000-01-04	17:00	161.0	35.5	18.2	95.5	OK	0	Normal operation	J. Doe
2000-01-04	18:00	161.5	35.8	18.3	95.8	OK	0	Normal operation	J. Doe
2000-01-04	19:00	162.0	36.0	18.4	96.0	OK	0	Normal operation	J. Doe
2000-01-04	20:00	162.5	36.2	18.5	96.2	OK	0	Normal operation	J. Doe
2000-01-04	21:00	163.0	36.5	18.6	96.5	OK	0	Normal operation	J. Doe
2000-01-04	22:00	163.5	36.8	18.7	96.8	OK	0	Normal operation	J. Doe
2000-01-04	23:00	164.0	37.0	18.8	97.0	OK	0	Normal operation	J. Doe
2000-01-05	00:00	164.5	37.2	18.9	97.2	OK	0	Normal operation	J. Doe
2000-01-05	01:00	165.0	37.5	19.0	97.5	OK	0	Normal operation	J. Doe
2000-01-05	02:00	165.5	37.8	19.1	97.8	OK	0	Normal operation	J. Doe
2000-01-05	03:00	166.0	38.0	19.2	98.0	OK	0	Normal operation	J. Doe
2000-01-05	04:00	166.5	38.2	19.3	98.2	OK	0	Normal operation	J. Doe
2000-01-05	05:00	167.0	38.5	19.4	98.5	OK	0	Normal operation	J. Doe
2000-01-05	06:00	167.5	38.8	19.5	98.8	OK	0	Normal operation	J. Doe
2000-01-05	07:00	168.0	39.0	19.6	99.0	OK	0	Normal operation	J. Doe
2000-01-05	08:00	168.5	39.2	19.7	99.2	OK	0	Normal operation	J. Doe
2000-01-05	09:00	169.0	39.5	19.8	99.5	OK	0	Normal operation	J. Doe
2000-01-05	10:00	169.5	39.8	19.9	99.8	OK	0	Normal operation	J. Doe
2000-01-05	11:00	170.0	40.0	20.0	100.0	OK	0	Normal operation	J. Doe
2000-01-05	12:00	170.5	40.2	20.1	100.2	OK	0	Normal operation	J. Doe
2000-01-05	13:00	171.0	40.5	20.2	100.5	OK	0	Normal operation	J. Doe
2000-01-05	14:00	171.5	40.8	20.3	100.8	OK	0	Normal operation	J. Doe
2000-01-05	15:00	172.0	41.0	20.4	101.0	OK	0	Normal operation	J. Doe
2000-01-05	16:00	172.5	41.2	20.5	101.2	OK	0	Normal operation	J. Doe
2000-01-05	17:00	173.0	41.5	20.6	101.5	OK	0	Normal operation	J. Doe
2000-01-05	18:00	173.5	41.8	20.7	101.8	OK	0	Normal operation	J. Doe
2000-01-05	19:00	174.0	42.0	20.8	102.0	OK	0	Normal operation	J. Doe
2000-01-05	20:00	174.5	42.2	20.9	102.2	OK	0	Normal operation	J. Doe
2000-01-05	21:00	175.0	42.5	21.0	102.5	OK	0	Normal operation	J. Doe
2000-01-05	22:00	175.5	42.8	21.1	102.8	OK	0	Normal operation	J. Doe
2000-01-05	23:00	176.0	43.0	21.2	103.0	OK	0	Normal operation	J. Doe
2000-01-06	00:00	176.5	43.2	21.3	103.2	OK	0	Normal operation	J. Doe
2000-01-06	01:00	177.0	43.5	21.4	103.5	OK	0	Normal operation	J. Doe
2000-01-06	02:00	177.5	43.8	21.5	103.8	OK	0	Normal operation	J. Doe
2000-01-06	03:00	178.0	44.0	21.6	104.0	OK	0	Normal operation	J. Doe
2000-01-06	04:00	178.5	44.2	21.7	104.2	OK	0	Normal operation	J. Doe
2000-01-06	05:00	179.0	44.5	21.8	104.5	OK	0	Normal operation	J. Doe
2000-01-06	06:00	179.5	44.8	21.9	104.8	OK	0	Normal operation	J. Doe
2000-01-06	07:00	180.0	45.0	22.0	105.0	OK	0	Normal operation	J. Doe
2000-01-06	08:00	180.5	45.2	22.1	105.2	OK	0	Normal operation	J. Doe
2000-01-06	09:00	181.0	45.5	22.2	105.5	OK	0	Normal operation	J. Doe
2000-01-06	10:00	181.5	45.8	22.3	105.8	OK	0	Normal operation	J. Doe
2000-01-06	11:00	182.0	46.0	22.4	106.0	OK	0	Normal operation	J. Doe
2000-01-06	12:00	182.5	46.2	22.5	106.2	OK	0	Normal operation	J. Doe
2000-01-06	13:00	183.0	46.5	22.6	106.5	OK	0	Normal operation	J. Doe
2000-01-06	14:00	183.5	46.8	22.7	106.8	OK	0	Normal operation	J. Doe
2000-01-06	15:00	184.0	47.0	22.8	107.0	OK	0	Normal operation	J. Doe
2000-01-06	16:00	184.5	47.2	22.9	107.2	OK	0	Normal operation	J. Doe
2000-01-06	17:00	185.0	47.5	23.0	107.5	OK	0	Normal operation	J. Doe
2000-01-06	18:00	185.5	47.8	23.1	107.8	OK	0	Normal operation	J. Doe
2000-01-06	19:00	186.0	48.0	23.2	108.0</				

During the year a number of notable projects were either completed, continued from last year or started. In the mill the first of two on-stream analysers is now fully operational, resulting in a substantial improvement in plant control; mill personnel are able to respond more quickly to process changes. The second analyser has been installed, is currently being calibrated and should be in use later in 1986. Development work on mill flotation columns continues to receive high priority because of the potential for significant electrical energy and reagent savings as well as improved product specifications.

In the mine computer technology has been utilized to develop a shovel payload weighing system and a computer-assisted truck dispatching system. This has resulted in savings through improved ore and waste handling and reduced diesel fuel consumption.

The average number of employees was 858 compared to 919 in 1984. At year-end, the work force totalled 852.

Continued strong emphasis by all personnel on improved safety performance has yielded good results again this year. The accident frequency rate decreased compared to the previous year and continues to reflect the significant downward trend in lost time accidents that started in 1982 with the introduction of a new safety program.

Approximately one-half of the annual production of copper concentrates is being delivered to a group of Japanese companies under a long-term contract for the sale and delivery of a fixed quantity of concentrates per year until the end of 1989. Under a separate contract concluded with the same Japanese companies at the beginning of 1985 a smaller fixed quantity of concentrates was sold and delivered during the year and a

similar quantity has been sold and scheduled for delivery during 1986. Deliveries of a fixed annual quantity of copper concentrates under a third sales contract of medium term previously concluded with a major trading company were completed by the end of 1985. Most of the production of copper concentrates in excess of deliveries under these contracts was sold and delivered during the year to other trading companies.

A substantial portion of scheduled 1986 molybdenum concentrate production has been sold on pricing formulae related to published dealer prices for molybdenic oxide. A larger portion of the 1986 production of molybdenum in concentrate will be converted to molybdenic oxide under toll conversion agreements and the product sold through a sales agent.

During April, 1985 the loading took place at Vancouver of the one hundredth ocean vessel carrying copper concentrates to Japan under the terms of the long-term contracts. From the start of production in 1972 to the departure of this ship, Lornex has shipped to its Japanese buyers some 2.1 million short dry tons of copper concentrate under these contracts. The occasion was marked by the attendance during vessel loading of senior representatives of Lornex's Japanese buyers, senior British Columbia government officials and directors of Lornex.

Bullmoose Mine

The Bullmoose coal mine continues to run efficiently in its second full year of operation. Lornex's share of 1985 metallurgical coal production was 831,000 tonnes, up 25% over the 1984 volume of 666,000 tonnes. Metallurgical coal sales of 816,000 tonnes compare to 695,000 tonnes delivered in 1984. The substantial increase in metallurgical coal production and sales over the last year resulted from amendments to the sales agreement in 1984. A small amount of thermal coal was produced and sold during the year; Lornex's share amounted to 27,000 tonnes produced and 23,000 tonnes delivered, approximately the same as 1984 volumes.

Computer technology has been extended into virtually every facet of Lornex's operations, including vehicle maintenance, as part of the Corporation's overall effort to optimize efficiency and productivity.



The coal is sold under long-term contracts to a group of Japanese steel mills, with the price established according to a formula until March 31, 1989. The contracted tonnage is 1.7 million tonnes per year, plus or minus 5% at the buyer's option. The contract was amended in October, 1984 to provide for a tonnage increase to 2.0 million tonnes per year and a price reduction of \$10 per tonne for the period April, 1984 through March, 1986, after which the original terms again take effect.

Exploration

Exploration expenditures by Lornex were \$625,000 during the year. Approximately 70 properties were submitted to the Corporation and of this total more than half were precious metals targets in British Columbia and almost one quarter were United States projects. Detailed exploration was conducted on three projects, all in British Columbia. Two potential gold properties were drilled with mixed results and no further work is planned on either of them.

The exploration department will continue to concentrate its main effort on attempting to acquire an interest in economic mineral projects in North America.

Outlook

The long term prospects of Lornex have been significantly enhanced as a result of the agreement in principle reached with Cominco Ltd. on January 13, 1986 to combine the assets and operations of both corporations in the Highland Valley of British Columbia. The agreement contemplates continued operation of the existing mills, other surface facilities and mobile fleets of Lornex and Cominco and a program which, when completed, would increase the mining

capacity of the higher grade Cominco mine to a rate sufficient to supply both mills at a rate of about 120,000 tonnes of ore per day. Production from the Lornex pit would decrease and ultimately all ore for both mills would come from the Cominco pit.

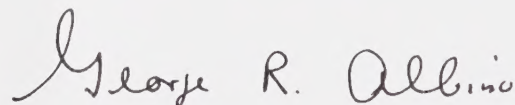
The combined effect of higher grades and increased ore reserves will ensure a low cost highly competitive facility, the benefits of which will accrue to both corporations for many years to come. Lornex and Cominco will have equal control and management of the entity which will operate the project. Working and other capital requirements are to be provided 45 percent by Lornex and 55 percent by Cominco and cash generated from the combined operation is to be distributed on the same basis.

Appreciation

Mr. Lorne H. Hunter, who served the Corporation for twelve years, latterly as a Director and Vice-President, resigned in July, 1985 to assume senior management responsibilities with a major mining project in China. His colleagues wish him well in his new endeavour.

The effective and dedicated efforts of Lornex people were a major factor in the improved results achieved last year. The Directors wish to express their appreciation to all those whose work made this possible.

On behalf of the Board of Directors



George R. Albino,
Chairman and
Chief Executive Officer

Vancouver, B.C.
February 19, 1986

*Drill tests coal seam on the
Bullmoose coal property while
haulage trucks work in the
background at the foot
of Rocky Mountain
peak.*

The principal accounting policies followed by Lornex Mining Corporation Ltd. are in accordance with generally accepted accounting practice in the Canadian mining industry and are summarized hereunder.

Investment in Joint Venture

The financial statements include the Corporation's proportionate 39% interest in the Bullmoose mine, an unincorporated joint venture.

Revenue from Mine Production and Valuation of Inventories and Concentrates Awaiting Shipment

Production of copper, molybdenum and other metals in concentrates is valued and taken into income as revenue from mine production at estimated realizable metal prices less provision for possible fluctuation in price. Adjustments are made to revenue from mine production with respect to concentrate shipments when the actual metal price is known and the final weight and assay adjustments are determined. Estimated smelting, refining and marketing charges are accrued at time of production and these charges are also adjusted with respect to shipments when the final weight and assay adjustments and marketing charges are determined.

At December 31, 1985 inventories of 18.9 million payable pounds of copper and 5.6 million payable pounds of molybdenum contained in concentrates awaiting shipment were valued as described above.

Coal inventories are valued at estimated realizable value.

Mine Supplies

Mine supplies are valued at average cost.

Depreciation and Amortization

Depreciation is provided on mining equipment on a straight-line basis over the shorter of its physical life or the estimated life of the mine. The cost of plant and equipment, mining properties and preproduction expenditures is amortized on a unit-of-production basis over the estimated life of the mine.

Capitalization of Interest

The Corporation follows the policy of capitalizing net interest costs during construction or development only on those projects for which funds have been borrowed; this would normally apply only to such major new projects from beginning of construction or development up to the commencement of commercial operations. In these cases interest earned on borrowed funds during the development and construction period is applied against the interest expense to reduce the amount of interest costs capitalized. Such net interest costs are capitalized because it is considered that they would not have been incurred if the project had not been undertaken and therefore are properly part of the capital cost of the total project.

Mineral Exploration and Development Costs

Exploration costs are written off as incurred. Expenditures on development projects are capitalized while the projects are considered to be of value to the Corporation.

Income and Mining Taxes

The Corporation provides for deferred income and mining taxes on all significant timing differences which represent the tax effects of revenue and expense items reported for tax purposes in periods different than for accounting purposes. Investment tax credits are recorded using the cost reduction approach when there is reasonable assurance that the credits will be realized; these credits are deferred and amortized to income on the same basis as the related assets.

Statement of Earnings and Retained Earnings

(Thousands of dollars)

Lornex Mining Corporation Ltd.
(Incorporated under
the laws of British Columbia)

Year Ended December 31

1985

1984

Revenue:

Net revenue from mine production	\$243,702	\$195,725
Investment and other income	4,547	1,423
	<u>248,249</u>	<u>197,148</u>

Expenses:

Operating costs	158,300	149,086
Administrative and general	15,766	14,809
Amortization and depreciation	26,354	25,596
Exploration	625	632
Interest on long term debt	9,715	13,919
	<u>210,760</u>	<u>204,042</u>

Earnings (loss) before taxes	37,489	(6,894)
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Income and mining taxes (note 8):

Current	8,667	(2,590)
Deferred	4,680	(1,040)
	<u>13,347</u>	<u>(3,630)</u>

Net earnings (loss) for the year	24,142	(3,264)
----------------------------------	--------	---------

Retained earnings, beginning of year	158,433	161,697
--------------------------------------	---------	---------

Retained earnings, end of year	\$182,575	\$158,433
--------------------------------	-----------	-----------

Net earnings (loss) per share	\$ 2.92	\$ (0.39)
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Balance Sheet

(Thousands of dollars)

Lornex Mining Corporation Ltd.

December 31	1985	1984
Assets		
Current:		
Cash and short term deposits	\$ 39,981	\$ 12,189
Receivables and prepaid expenses	20,926	10,553
Income and mining taxes recoverable	—	7,430
Inventories and concentrates awaiting shipment	34,007	40,797
Mine supplies	17,544	17,570
	112,458	88,539
Plant and equipment (note 3)	234,553	246,515
Mining properties and preproduction expenditures (note 4)	68,678	73,133
Deposits and long term receivables, at cost	3,703	4,070
	\$419,392	\$412,257
Liabilities		
Current:		
Bank loans	\$ —	\$ 5,500
Accounts payable and accrued liabilities	28,957	28,136
Income and mining taxes	9,457	—
Current portion of Bullmoose bank loans	5,603	2,613
	44,017	36,249
Bullmoose bank loans (note 5):		
Recourse	19,157	40,639
Limited recourse	55,163	63,050
Housing loans (interest 8¾% to 13%)	2,839	2,925
Deferred income and mining taxes	104,055	99,375
	225,231	242,238
Shareholders' Equity		
Capital Stock (note 6):		
Authorized —		
9,500,000 common shares, par value of \$1 each		
4,500,000 Class A shares, par value of \$1 each		
Issued —		
8,268,762 common shares	8,269	8,269
Premium less discount on shares issued for cash	3,317	3,317
Retained earnings	182,575	158,433
	194,161	170,019
	\$419,392	\$412,257

Approved on behalf of the Board:

David S. R. Leighton
D. S. R. Leighton, Director

G. R. Albino
G. R. Albino, Director

Statement of Changes in
Financial Position

(Thousands of dollars)

Lornex Mining Corporation Ltd.

Year Ended December 31	1985	1984
Operating Activities:		
Net earnings (loss) for the year	\$ 24,142	\$ (3,264)
Amortization and depreciation	26,354	25,596
Deferred income and mining taxes	4,680	(1,040)
Decrease (increase) in non-cash working capital	14,151	(33,783)
	69,327	(12,491)
Financing Activities:		
Housing loans	(86)	77
Bullmoose bank loans	(26,379)	—
Deposits and long term receivables	367	101
	(26,098)	178
Investing Activities:		
Plant and equipment (net)	(9,937)	(3,316)
Change in cash and equivalents during year ⁽²⁾	33,292	(15,629)
Cash and equivalents, beginning of year	6,689	22,318
Cash and equivalents, end of year	\$ 39,981	\$ 6,689

(1) As recommended by the Canadian Institute of Chartered Accountants the above statement has been prepared disclosing changes in cash and equivalents; the 1984 data has been reclassified accordingly.
(2) Cash and equivalents comprise cash and short term deposits less current bank loans.

Auditors' Report
to the Shareholders

We have examined the balance sheet of Lornex Mining Corporation Ltd. as at December 31, 1985, and the statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in accounting policy as explained in note 2, on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants

Vancouver, British Columbia
January 27, 1986.

Notes to the Financial Statements

Lornex Mining Corporation Ltd.

December 31, 1985

1 Accounting Policies

The information on page 6 presents a summary of the principal accounting policies and is an integral part of these financial statements.

2 Change in Accounting Policy

Effective January 1, 1985 the Corporation adopted prospectively the recommendations of the Canadian Institute of Chartered Accountants with respect to investment tax credits (see Accounting Policies — Income and Mining Taxes). Previously the Corporation recorded investment tax credits by the "flow through" method which recognized such credits as a reduction of income tax expense in the year in which they were claimed for federal tax purposes. Had the former method of accounting for investment tax credits been continued, consolidated earnings in 1985 would have been increased by \$0.5 million.

3 Plant and Equipment

	1985	1984
	(in thousands)	
Plant and equipment, at cost	\$375,324	\$365,531
Less accumulated depreciation . .	140,771	119,016
Total	\$234,553	\$246,515

4 Mining Properties and Preproduction Expenditures

	1985	1984
	(in thousands)	
Mining properties, at cost	\$ 1,233	\$ 1,233
Less accumulated amortization . .	590	542
	643	691
Preproduction expenditures, at cost	97,675	97,726
Less accumulated amortization . .	29,640	25,284
	68,035	72,442
Total	\$ 68,678	\$ 73,133

5 Bullmoose Bank Loans

	1985	1984
	(in thousands)	
Recourse loans	\$ 20,860	\$ 41,302
Less portion included in current liabilities	1,703	663
	19,157	40,639
Limited recourse loans	59,063	65,000
Less portion included in current liabilities	3,900	1,950
	55,163	63,050
Total	\$ 74,320	\$103,689

The loans are repayable in semi-annual instalments from July, 1986 through July, 1992 on the recourse loans and from July, 1986 through January, 1995 on the limited recourse loans. Minimum loan repayments scheduled over the next five years are \$5,603,000 in 1986, \$7,743,000 in 1987, \$7,541,000 in 1988, \$8,830,000 in 1989 and \$10,331,000 in 1990. The limited recourse and recourse loans are secured by a first charge on the Corporation's 39% interest in the assets of the Bullmoose mine.

Both loans are available at variable interest rates by way of Canadian and/or U.S. dollar loans and bankers' acceptances. The average interest rates at December 31, 1985 were 10.1% on the limited recourse loans and 9.3% on the recourse loans.

6 Capital Stock

At December 31, 1985, 30,000 common shares were reserved for issue under a Stock Option Plan for which no exercisable options are outstanding.

7 Commitments and Contingent Liabilities

(a) The Corporation has a contingent liability to buy back houses and mobile home lots at the Logan Lake townsite for \$1,925,000 as at December 31, 1985; the cost of the buyback declines by 5% per annum.

(b) The Corporation has guaranteed mortgages, amounting to \$4,933,000 at December 31, 1985, on certain housing in Logan Lake.

8 Income Taxes

(a) A reconciliation of the statutory income tax rate and the effective rate of income and mining taxes is as follows:

	1985	1984
Statutory income tax rate	52.0%	52.0%
Increase (decrease) resulting from:		
Provincial resource taxes and royalty net of resource and depletion allowances	(9.5)	4.6
Investment tax credits	(6.2)	—
Inventory allowance	(1.2)	5.2
Non-allowable expenses*	0.5	(9.1)
Effective rate of income and mining taxes	35.6%	52.7%

* Non-allowable expenses principally relate to amortization of capitalized interest and of prior periods' investment tax credits claimed.

(b) The Corporation has accumulated capital losses for tax purposes of \$4.2 million which will be available to apply against future taxable capital gains. No recognition has been given in these financial statements to the potential future tax benefit which may result from the application of these losses.

(c) In addition, \$7.9 million of investment tax credit carry forwards are available to reduce future years' taxes otherwise payable and, if unused, will expire between the years 1986 and 1988. No recognition has been given in these financial statements to the potential future tax benefit which may result from the application of these investment tax credits.

9 Related Party Transactions

- (a) Rio Algom Limited supervises and manages the business of the Corporation. The 1985 management fee was \$834,000 (1984 — \$250,000); the fee for future years is to be escalated from a base of \$1,000,000 in 1980 in accordance with a formula based on published government indices and is subject to a minimum of \$250,000 and a maximum based on a percentage of the earnings before taxes.
- (b) A shareholder, Teck Corporation, 51% owner and manager of the Bullmoose mine, received from the Corporation a management fee of \$445,000 in 1985 (1984 — \$405,000).

10 Segment Information

The Corporation has only one operating segment, mining and milling of copper-molybdenum ore and joint venture interest in mining and treatment of metallurgical coal. Virtually the entire net revenue from mine production relates to export sales.

11 Investment in Bullmoose Mine

The following amounts are included in the financial statements and represent the Corporation's proportionate share of the assets, liabilities, net revenue and net earnings of the Bullmoose mine:

	December 31,	
	1985	1984
	(in thousands)	
Assets		
Current	\$ 11,668	\$ 14,747
Property, plant and equipment	96,838	99,340
Long term receivables	1,087	1,056
	<u>\$109,593</u>	<u>\$115,143</u>
Liabilities and Equity		
Current liabilities	\$ 4,345	\$ 3,842
Housing loans	2,013	2,006
Equity	103,235	109,295
	<u>\$109,593</u>	<u>\$115,143</u>
	Year Ended December 31,	
	1985	1984
	(in thousands)	
Net revenue		
from mine production	\$ 77,086	\$ 62,771
Net earnings	<u>\$ 6,688</u>	<u>\$ 3,846</u>

12 Subsequent Event

On January 13, 1986 the Corporation and Cominco Ltd. announced that agreement in principle had been reached to combine the assets and operations of Lornex and Cominco in the Highland Valley of British Columbia. The proposed agreement contemplates continued operation of the existing mines and mills of both Lornex and Cominco. Cominco and Lornex will have equal control and management of the entity which will operate the project. Working and other capital requirements are to be provided 45% by Lornex and 55% by Cominco and cash generated from the combined operations is to be distributed on the same basis.

Five Year Review

	1985	1984 ⁽ⁱⁱ⁾	1983	1982	1981 ⁽ⁱ⁾
Earnings: (thousands of dollars)					
Net revenue from mine production	\$243,702	\$195,725	\$148,506	\$126,893	\$150,929
Investment and other income	4,547	1,423	1,223	—	3,358
	248,249	197,148	149,729	126,893	154,287
Operating costs	158,300	149,086	111,391	111,386	87,274
Administrative and general	15,766	14,809	10,590	11,575	9,946
Amortization and depreciation	26,354	25,596	20,533	20,816	15,370
Exploration	625	632	435	714	590
Interest	9,715	13,919	502	2,087	259
	210,760	204,042	143,451	146,578	113,439
Earnings (loss) before taxes	37,489	(6,894)	6,278	(19,685)	40,848
Income and mining taxes	13,347	(3,630)	3,595	(8,545)	17,600
Net earnings (loss)	\$ 24,142	\$ (3,264)	\$ 2,683	\$ (11,140)	\$ 23,248

Production Data: (thousands except per operating day data)

Tons of ore milled	32,200	31,044	31,710	30,692	22,861
Per operating day	88,220	84,821	86,877	84,086	62,634
Copper in concentrate (pounds)	210,583	186,210	181,682	194,582	164,730
Molybdenum in concentrate (pounds)	7,593	7,448	7,506	6,347	4,790
Coal (tonnes)	858	692	—	—	—
Silver (ounces)	776	726	710	739	590

Financial Data: (thousands except per share data)

Per share of common stock					
Net earnings (loss)	\$ 2.92	\$ (0.39)	\$ 0.32	\$ (1.35)	\$ 2.81
Dividends	\$ —	\$ —	\$ —	\$ —	\$ 2.00
Equity	\$ 23.48	\$ 20.56	\$ 20.96	\$ 20.63	\$ 21.98
Long term debt and housing loans	\$ 77,159	\$106,614	\$109,150	\$ 35,761	\$ 1,014
Shareholders' equity	\$194,161	\$170,019	\$173,283	\$170,600	\$181,740
Common shares outstanding	8,269	8,269	8,269	8,269	8,269
Capital expenditures	\$ 9,937	\$ 3,316	\$ 72,660	\$ 41,579	\$ 57,119

Notes:

(i) The expanded Lornex facilities commenced operations in August, 1981.

(ii) The financial results and production data include, on a proportionate consolidation basis, Lornex's 39% joint venture interest in the Bullmoose metallurgical coal mine, which commenced operations on January 1, 1984.

Lornex Mining Corporation Ltd.

Directors

George R. Albino,
Toronto, Ontario

Ray W. Ballmer,
Toronto, Ontario

Thomas A. Buell,
Vancouver, B.C.

Robert G. Connochie,
Islington, Ontario

Akira Fujisaki,
Tokyo, Japan

Robert E. Hallbauer,
West Vancouver, B.C.

Norman B. Keevil, Jr.,
Vancouver, B.C.

Stanley B. Kerr
Toronto, Ontario

David S. R. Leighton,
Canmore, Alberta

Alan F. Lowell,
Etobicoke, Ontario

John H. Spicer,
Kelowna, B.C.

David A. Thompson,
West Vancouver, B.C.

Honorary Director
Egil H. Lorntzen,
Vancouver, B.C.

Officers

George R. Albino,
*Chairman and
Chief Executive Officer*

Ray W. Ballmer,
*President and
Chief Operating Officer*

John G. Hood,
Treasurer

C. William M. Burge,
Secretary

Lornex Mine Management
Douglas E. Guild,
*Vice-President,
General Manager*

James McManus,
Operations Manager

H. James Anderson,
*Administration Manager
and Controller*

Exploration
David R. Budinski
Manager

Head Office
P.O. Box 10335,
Stock Exchange Tower,
1650-609 Granville Street,
Vancouver, B.C.
V7Y 1G5

Lornex Mine Office
P.O. Box 1500,
Logan Lake, B.C.
V0K 1W0

Auditors
Coopers & Lybrand,
Vancouver, B.C.

Registrar and Transfer Agent
National Trust Company,
Vancouver, B.C.

Shares Listed (Symbol LMN)
Vancouver Stock Exchange

Lornex

Lornex Mining Corporation Ltd.

(Incorporated under the laws of British Columbia)

P.O. Box 10335,
Stock Exchange Tower,
1650-609 Granville Street,
Vancouver, British Columbia
V7Y 1G5

Notice of Annual General Meeting of Shareholders

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shareholders of Lornex Mining Corporation Ltd. (the "Corporation") will be held in the Shuswap Room at The Four Seasons Hotel, 791 West Georgia Street, Vancouver, British Columbia on Thursday, April 17, 1986 at the hour of 10:30 o'clock in the forenoon:

1. to receive the annual report of the Corporation for the year ended December 31, 1985;
2. to elect directors for the ensuing year;
3. to appoint auditors for the ensuing year and to authorize the directors to fix the remuneration of the auditors;
4. to pass a special resolution in the form set out in the Information Circular to alter the Articles of the Corporation by adding an Article to authorize participation by telephone in meetings of the board of directors or of committees of the board. A special resolution requires confirmation by not less than $\frac{3}{4}$ of the votes cast at the meeting;
5. to transact such other business as may properly come before the meeting.

The holders of the common shares of the Corporation are entitled to attend and vote at the meeting, either in person or by proxy, in accordance with the provisions of the Company Act (British Columbia). If you are unable to attend the meeting in person, please complete, date and sign the enclosed form of proxy and return it in the addressed envelope provided for that purpose. All proxies to be used at the meeting must be delivered to the office of National Trust Company, 900 Park Place Tower, 666 Burrard Street, Vancouver, British Columbia V6C 9Z9, by 10:30 o'clock in the forenoon (Vancouver time) on Wednesday, April 16, 1986. Proxies not so delivered will not be voted at the Meeting.

A copy of the annual report of the Corporation for the year ended December 31, 1985 is enclosed.

By Order of the Board of Directors

C. William M. Burge
Secretary

Vancouver, B.C.
March 21, 1986

Lornex Mining Corporation Ltd.

(Incorporated under the laws of British Columbia)

P.O. Box 10335,
Stock Exchange Tower,
1650-609 Granville Street,
Vancouver, British Columbia
V7Y 1G5

Information Circular

All dollar amounts in this Information Circular refer to Canadian dollars, unless otherwise indicated.

Solicitation of Proxies

This Information Circular is furnished in connection with the solicitation by the management of Lornex Mining Corporation Ltd. ("Lornex" or the "Corporation") of proxies to be voted at the Annual General Meeting of Shareholders of the Corporation (the "Meeting") to be held on Thursday, April 17, 1986 for the purposes set forth in the accompanying notice of the Meeting. The cost of this solicitation will be borne by the Corporation. In addition to the solicitation by mail, certain officers and employees of the Corporation may solicit proxies by telephone, telex or personally. These persons will receive no compensation other than their regular salaries.

Voting Rights and Principal Shareholders

As at February 19, 1986 there were outstanding 8,268,762 common shares of the Corporation with a par value of \$1.00 each.

Each holder of record of common shares as at the close of business on April 16, 1986, being the day prior to the Meeting, will be entitled to as many votes at the Meeting as he holds common shares in the capital of the Corporation. Any shareholder desiring to be represented at the Meeting by proxy must deliver his executed form of proxy at the office of National Trust Company, 900 Park Place Tower, 666 Burrard Street, Vancouver, British Columbia V6C 9Z9, by 10:30 o'clock in the forenoon (Vancouver time) on Wednesday, April 16, 1986.

To the knowledge of the Directors and Senior Officers of the Corporation the only persons or corporations, beneficially owning, directly or indirectly, more than 10% of the shares of the Corporation are as follows:

	Common Shares beneficially owned as at February 19, 1986	
	Number	Percentage
Rio Algom Limited Toronto, Ontario. ("Rio Algom")	5,630,819	68.1%
Teck Corporation Vancouver, B.C. ("Teck")	1,820,200	22.0%

Election of Directors

Directors are to be elected at the Meeting to serve until the next annual general meeting of Shareholders or until their successors are elected or appointed. The Directors have fixed the number of Directors at 13. **The persons named in the enclosed form of proxy intend to vote for the election of the proposed nominees whose names are set out below. Although management does not contemplate that any of the nominees named below will be unavailable for election, in the event of any vacancies among these nominees, the persons named in the enclosed form of proxy intend to vote in favor of the election of the remaining nominees.**

Advance notice of the Annual General Meeting of Shareholders as required by Section 135 of the Company Act (British Columbia) was published in The Province on February 14, 1986.

conference telephone or other communication facilities which will permit all Directors participating in the meeting to hear each other. A Director participating in a meeting in accordance with this Article shall be deemed to be present at the meeting and shall be counted in the quorum therefor and be entitled to speak and vote thereat."

The Special Resolution requires confirmation by not less than $\frac{3}{4}$ of the votes cast at the Meeting. **Unless otherwise instructed, proxies which are received pursuant to this solicitation will be voted in favour of the Special Resolution.**

Appointment and Revocation of Proxies

Each shareholder has the right to designate as his proxy a person (who need not be a shareholder of the Corporation) other than Mr. George R. Albino or Mr. Ray W. Ballmer, the management nominees, to attend and act for such shareholder at the Meeting. Any shareholder desiring to exercise such right may do so by striking out the names of the management nominees in the enclosed form of proxy and inserting in the space provided the name of the person so appointed as his proxy, or by executing a separate proxy in form similar to the enclosed form.

Under the provisions of Section 175(8) of the Company Act (British Columbia), a shareholder giving a proxy has power to revoke it by instrument in writing delivered to the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, or to the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof.

Exercise of Discretion of Proxies

The persons named in the enclosed form of proxy will, on any poll, vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. **In the absence of such direction, such shares will be voted in favour of the matters to be dealt with at the Meeting and set forth in the accompanying notice of the Meeting.** The shares represented by the enclosed form of proxy if the same is executed in favour of the management nominees and delivered to National Trust Company, 900 Park Place Tower, 666 Burrard Street, Vancouver, British Columbia, V6C 9Z9, by 10:30 o'clock in the forenoon (Vancouver time) on Wednesday, April 16, 1986 will be voted. Where a choice is specified, the shares will be voted in accordance with the specification made. **In the absence of any specification, the shares represented by the enclosed form of proxy will be voted in favour of the matters to be dealt with at the Meeting as set forth in the accompanying notice of the Meeting.**

If you appoint a proxy other than those persons named in the enclosed form of proxy, the management of the Corporation assumes no responsibility in respect of whether or not such proxy votes your shares in accordance with your instructions.

Other Business

The management does not know of any other matters that may come before the Meeting. It should be noted, however, that the enclosed form of proxy is a discretionary proxy and if any other matter should properly come before the Meeting the shares represented by the enclosed form of proxy will be voted by Mr. George R. Albino or Mr. Ray W. Ballmer, the management nominees, upon such other matters in accordance with the best judgment of such management nominees.

By Order of the Board of Directors

C. William M. Burge
Secretary

Vancouver, B.C.
March 21, 1986

Nominees for election as directors

Name and principal occupation of nominees	Period of directorship extends from year below to date hereof	Shares owned beneficially as at February 19, 1986	Country in which ordinarily resident
*George R. Albino, Toronto, Ontario, is Chairman and Chief Executive Officer of Rio Algom and Chairman and Chief Executive Officer of Lornex	1966	1,000	Canada
Ray W. Ballmer, Toronto, Ontario, is President and Chief Operating Officer of Rio Algom and President and Chief Operating Officer of Lornex	1982	—	Canada
*Thomas A. Buell, Vancouver, B.C., is Chairman of the Board, President and Chief Executive Officer of Weldwood of Canada Limited	1981	—	Canada
Robert G. Connochie, Islington, Ontario, has been Vice-President, Corporate Development, Rio Algom since 1982 and prior thereto was Vice-President and Executive Assistant to the President of that corporation	1985	—	Canada
Akira Fujisaki, Tokyo, Japan, is Chairman of the Board of Sumitomo Metal Mining Co., Ltd.	1977	10	Japan
Robert E. Hallbauer, West Vancouver, B.C., is Senior Vice-President of Teck	1979	—	Canada
Norman B. Keevil, Jr., Vancouver, B.C., is President and Chief Executive Officer of Teck	1979	—	Canada
Stanley B. Kerr, Toronto, Ontario, has been Senior Vice-President, Finance & Corporate Relations of Rio Algom since 1982 and prior thereto was Senior Vice-President, Finance of that corporation	1985	—	Canada
*David S. R. Leighton, Canmore, Alberta, is Vice-Chairman of the Board, Nabisco Brands Ltd.	1978	—	Canada
J. Gordon Littlejohn, Toronto, Ontario has been Vice-President, General Counsel of Rio Algom for more than five years	—	—	Canada
Alan F. Lowell, Etobicoke, Ontario, is Vice-President, Minerals Marketing of Rio Algom	1972(1)	—	Canada
*John H. Spicer, Kelowna, B.C., is a Consultant	1981	—	Canada
David A. Thompson, West Vancouver, B.C., is Vice-President, Finance of Teck	1982	—	Canada

* Members of the Audit Committee of Lornex.

(1) Except for the period September 8, 1976 through April 21, 1977.

Remuneration

The aggregate direct remuneration paid or payable by the Corporation to Directors and Senior Officers of the Corporation during the year 1985 was \$621,120.

Lornex has no pension or retirement plans involving any direct or indirect payments to Directors as such nor any direct payments to Senior Officers as such. The aggregate cost to Lornex during the year ended December 31, 1985 of all pension benefits proposed to be paid to Senior Officers of Lornex by Rio Algom under its Salaried Employees Pension Plan and in respect of additional benefits on retirement at age 65 was \$45,553.

At December 31, 1985, Mr. H. J. Anderson, a Senior Officer of the Corporation, was indebted to the Corporation in respect of a non-interest bearing housing loan of \$27,899. The largest amount of such loan outstanding during 1985 was \$32,903.

Management Contract

Management and direction of the development of the mining properties owned by the Corporation is carried on by Rio Algom pursuant to the provisions of the Construction and Management Agreement dated as of December 1, 1969 between the Corporation and Rio Algom. Pursuant to that agreement, as amended, certain of Rio Algom's officers and fulltime employees assist and advise the Corporation without remuneration from the Corporation. In addition, Rio Algom is responsible for the hiring for the Corporation's account of the necessary fulltime supervisory and management personnel and makes available to the Corporation, at the Corporation's expense, Rio Algom's head office marketing, engineering, planning, administrative and other technical and financial services.

The Corporation agreed to pay Rio Algom a management fee of \$834,046 for the year ended December 31, 1985. In addition, Rio Algom was reimbursed by the Corporation for certain services provided, independent consulting services rendered, material, equipment, supplies and rentals provided and overhead incurred amounting in total during the year ended December 31, 1985 to \$1,657,167.

Rio Algom holds 5,630,819 Lornex common shares representing 68.1% of Lornex's outstanding common shares. The only holder, to the knowledge of Rio Algom, of 10% or more of the voting rights attached to all common shares of Rio Algom as of February 19, 1986 was Tinto Holdings Canada Limited ("Tinto Holdings"), Suite 2600, 120 Adelaide Street West, Toronto, Ontario, holding, directly and through affiliates, 22,506,336 Rio Algom common shares representing 52.78% of that corporation's outstanding common shares. Tinto Holdings is an indirect wholly-owned subsidiary of The Rio Tinto-Zinc Corporation PLC, 6 St. James's Square, London, SW1Y 4LD, England, a publicly held English company.

Material Transaction

In addition to the transactions described under the heading Management Contract the following is the only material transaction (or proposed material transaction to be entered into) of the Corporation since January 1, 1985 in which (i) any Director or Senior Officer of the Corporation; (ii) any proposed nominee for election as a Director of the Corporation; (iii) any person or company beneficially owning, directly or indirectly, more than 10% of the common shares of the Corporation; and (iv) any associate or affiliate of the foregoing had a direct or indirect material interest:

Lornex (39%), Teck (51%) and Nissho Iwai Coal Development (Canada) Ltd. (10%) are joint venturers in the Bullmoose metallurgical coal mine in northeastern British Columbia. Under this joint venture agreement, Lornex paid a management fee of \$445,755 to Teck as manager in 1985.

Auditors

The firm of Coopers & Lybrand, Chartered Accountants, was first appointed Auditors of the Corporation by the shareholders of the Corporation in 1967. **It is intended that proxies which are received pursuant to this solicitation will be voted for the appointment of Coopers & Lybrand, Chartered Accountants, as Auditors of the Corporation, to hold such office until the next annual general meeting of the Corporation at a remuneration to be fixed by the Directors.**

Alteration of Articles

In order to alter the Articles of the Corporation to permit the Directors of the Corporation to participate in meetings of the Board of Directors or of any committees thereof by means of conference telephone or other suitable means of communications a special resolution in the following form will be proposed:

"BE IT RESOLVED as a Special Resolution that the Articles of the Corporation be altered by adding thereto as Article 14.12 the following:

TELEPHONE PARTICIPATION

14:12 A Director may participate in a meeting of the Board or of any committee of the Directors by means of

[The body of the document contains several paragraphs of text that are extremely faint and illegible due to the quality of the scan. The text appears to be a formal letter or report, possibly containing dates, names, and descriptive sentences.]

[A small, handwritten mark or signature is visible on the right margin of the page.]